Executive Summary

The U.S.-Peru Trade Promotion Agreement (TPA) will grant immediate duty-free access for 90 percent of tariff lines (combined U.S. and Peru), addresses many nontariff barriers,[1] and liberalizes trade in services between the United States and Peru. Ninety-two percent of qualifying "industrial and textile" goods tariff lines and 78 percent of tariff lines covering agricultural products will be duty free upon implementation of the TPA. Because of Peru's access to tariff preferences under the Andean Trade Preference Act (ATPA), Peruvian exporters generally face substantially lower tariffs in the U.S. market than do U.S. exporters in the Peruvian market. This tariff asymmetry implies a larger increase in U.S. exports to Peru than U.S. imports from Peru as a result of the TPA. The TPA also contains provisions intended to expedite the movement of goods and the provision of services between the two countries and improve the regulatory climate for bilateral trade and investment.

This report provides a quantitative assessment of the effect of tariff and tariff-rate quota elimination on trade in goods and a qualitative assessment of the effects of all TPA provisions, including those on trade in services, trade facilitation, and the regulatory environment. A summary of the key TPA provisions appears in table ES-1 at the end of this executive summary.

Summary of Findings on Market Access

The U.S.-Peru TPA may have a small, positive effect on the U.S. economy. The benefits will likely be moderated by the relatively small size of Peru's economy in relation to the U.S. economy, Peru's small share of U.S. trade—Peru accounted for approximately 0.3 percent of total U.S. goods trade in 2005—and Peru's access to duty-free entry under ATPA and the Generalized System of Preferences. With the exception of sugar, all eligible goods traded will be duty free after 17 years. For example, while the United States will grant immediate duty-free access for most tariff lines, tariff lines covering certain tuna, footwear, dairy products, bovine products, peanuts, and tobacco will be phased out over 10 to 17 years. U.S. tariff lines subject to 3-year staging cover certain wool products.[2]

Most of the economy-wide and sector-specific effects of tariff elimination on goods are driven by Peru's removal of tariffs facing U.S. exports and the subsequent improvement in the United States's terms of trade. Given the substantially larger tariffs faced by U.S. exporters to Peru than Peruvian exporters to the United States, the TPA is likely to result in a much larger increase in U.S. exports than in U.S. imports. Economy-wide analysis estimates U.S. imports from Peru will increase by $439 million and U.S. exports to Peru will increase by $1.1 billion, an 8 percent and 25 percent increase, respectively. As a result of tariff elimination in the TPA, U.S. GDP will be higher by over $2.1 billion, or approximately 0.02 percent. Three U.S. sectors—metals n.e.c. (mainly gold, copper, and aluminum), crops n.e.c. (e.g., cut flowers, live plants, and seeds), and paddy rice—would experience reductions in output, revenue, or employment of more than 0.10 percent.

[1] U.S. quotas will remain on sugar imports after full implementation of the TPA.

[2] See tables 2-1 and 2-2 in chap. 2 of this report for further information on the tariff commitments of the United States and Peru under the TPA.

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The U.S. International Trade Commission (Commission) identified eight sectors for additional sector-specific analysis. Textiles and apparel, leather goods and footwear, and asparagus are sectors in which Peru has benefited substantially from the ATPA program and that may experience increased U.S. imports from Peru as a result of the TPA spurred by additional investment stemming from permanent market access. Grains, meat (including beef and pork), and pharmaceuticals are sectors that may experience increased U.S. exports to Peru as a result of the TPA. Cotton and sugar are sectors for which the TPA is not expected to substantially affect U.S.-Peru trade. Whereas sugar represents a historically sensitive sector, for cotton, the TPA reflects a substantial change in U.S. trade policy with respect to Peru.

The U.S.-Peru TPA would provide U.S. service firms levels of market access, national treatment, and regulatory transparency that generally exceed those afforded by Peru's commitments under the General Agreement on Trade in Services (GATS). Improved access for U.S. service firms in Peru is largely attributable to the "negative list" approach in the agreement. This approach extends the trade disciplines found in the services chapters of the TPA to many services for which Peru made no commitments under the GATS, such as computer and related services, real estate services, construction services, environmental services, and pipeline transport services. Nevertheless, the TPA is expected to generate only a small increase in U.S. services exports to Peru. The U.S.-Peru TPA is not likely to have an observable effect on U.S. imports of services from Peru largely because the U.S. service sectors are already generally open to foreign firms and because the Peruvian service industries are small.

Summary of Findings on Trade Facilitation and the Regulatory Environment

The TPA provisions on trade facilitation are designed to expedite the movement of goods and the provision of services between the United States and Peru. This effort is addressed through specific improvements in technical barriers to trade, customs administration, and sanitary and phytosanitary measures, as well as facilitation of electronic commerce. The regulatory climate for bilateral trade and investment will be improved by the provisions on transparency, trade remedies, government procurement, investment, intellectual property rights, labor, the environment, and dispute settlement.

Although the economic effects of the TPA provisions on trade facilitation and the regulatory environment cannot be quantified for this study, their overall effect on the U.S. economy and industry is likely to be small, largely reflecting the relatively small size of Peru's economy. Nevertheless, U.S.-based firms are likely to benefit from the application of the TPA trade facilitation provisions by Peru, which are intended to establish a secure, predictable legal framework for U.S. firms operating in Peru.

The provisions on trade facilitation are likely to expand export opportunities for U.S. firms, particularly for goods often subject to technical and regulatory standards and requirements, and are likely to develop a more stable and reliable trading environment, further buttressing U.S.-Peru trade and investment. Benefits directly attributable to the TPA are tempered, however, by past and ongoing improvements that Peru has made in the areas of customs administration, sanitary and phytosanitary measures, technical barriers to trade, and electronic commerce.

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Benefits from provisions related to the regulatory environment are likely to be marginal because of the relative size of the Peruvian market and the relatively high level of transparency already existing in Peru's current regulatory regime, as well as the country's structural changes resulting from economic reforms and privatization programs already in place. The TPA provisions on investment, though expected to have a small effect on the level of U.S. direct investment in Peru and the level of Peru's direct investment in the United States, are likely to provide U.S. investors operating in Peru greater opportunities and equal treatment with Peruvian investors. Additionally, the protection of intellectual property in Peru is expected to be significantly improved if the intellectual property rights provisions of the TPA are fully and effectively implemented and enforced through appropriate legislation, regulations, and procedures.

Table ES-1 U.S.-Peru TPA: Summary of key provisions on market access, trade facilitation, and regulatory environment

Market access for trade in goods and services

Chapter 2 (National Treatment and Market Access for Goods), Chapter 3 (Textiles and Apparel), and Chapter 4 (Rules of Origin)

- Liberalizes all qualifying goods trade, with the exception of sugar, immediately or phased in over periods of up to 17 years.
- Makes permanent the duty-free access currently provided to most imports from Peru under ATPA and the GSP.
- Establishes a Committee on Trade in Goods to consider matters arising under Chapter 4 (Rules of Origin) and Chapter 5 (Customs Administration).
- Enhances and makes permanent ATPA trade preferences for apparel and makes them reciprocal; for the first time, extends trade preferences to textiles.
- Grants duty-free treatment to unlimited quantities of apparel made in Peru of Peruvian yarn and fabric.
- Contains a cumulation-style specific rule that allows the use of nylon filament yarn only from the United States, Canada, Mexico, and Israel in originating apparel from Peru.
- Makes textiles and apparel duty free and quota free immediately if the products meet the TPA rules of origin requirements.
- Does not provide trade preference levels.
- Requires a "yarn-forward" rule of origin for most textiles and apparel to qualify for duty preferences.

Chapter 11 (Cross-border Trade in Services), Chapter 12 (Financial Services), and Chapter 14 (Telecommunications)

- Provides national treatment and nondiscriminatory guarantees in most service sectors, guarantees market access in most service sectors, and improves regulatory transparency in Peru.
- Improves upon Peru's commitments under the WTO General Agreement on Trade in Services.

Trade facilitation

Chapter 5 (Customs Administration and Trade Facilitation)

- Improves transparency, efficiency, accountability, and predictability of customs regulations and procedures.
- Provides special measures to liberalize express shipments.

Chapter 6 (Sanitary and Phytosanitary Measures)

- Follows existing WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures.
- Establishes a bilateral Standing Committee to address relevant SPS issues, as outlined in letters of exchange on SPS/TBT issues.

Chapter 7 (Technical Barriers to Trade)

- Improves implementation of WTO Technical Barriers to Trade (TBT) Agreement by intensifying efforts to improve transparency, enhance bilateral cooperation, and increase mutual acceptance of each party's technical regulations and conformity assessment procedures.
- Establishes a committee comprising representatives of each party to monitor implementation of the TPA's TBT chapter and address any issues arising from each party's standards, technical regulations, and conformity assessment procedures.

Chapter 15 (Electronic Commerce)

- Provides nondiscriminatory treatment of digital products.
- Requires parties to agree not to impose customs duties, fees, and other charges on digital products (parties are not prevented from imposing internal taxes, charges, or other fees on the domestic sale of such products); and to agree on a method of valuation for physically delivered digital products.

Regulatory environment

Chapter 8 (Trade Remedies)

- Provides a framework for procedures covering the application of safeguards.

Chapter 9 (Government Procurement)

- Provides nondiscriminatory treatment for covered government purchases in excess of agreed monetary thresholds.
- Includes transparent disciplines on government procurement procedures.
- Maintains criminal and other penalties for bribery in government procurement.

Chapter 10 (Investment)

- Provides national treatment, most-favored-nation treatment, and nondiscriminatory treatment.
- Includes a secure, predictable legal framework and an investor-state dispute settlement process.

Chapter 13 (Competition Policy)

- Addresses issues of anticompetitive business practices, state monopolies, and state enterprises.
- Provides for cooperation and consultation on competition law, policy, and enforcement matters.

Chapter 16 (Intellectual Property Rights, including Biodiversity and Traditional Knowledge)

- Includes state-of-the art protection for copyrights, patents, trademarks, and trade secrets, and addresses Internet and digital piracy issues.
- Strengthens enforcement measures and civil and criminal penalties for piracy and counterfeiting.
- Recognizes the importance of traditional knowledge and biodiversity and their potential contribution to cultural, economic, and social development.

Chapter 17 (Labor) and Chapter 18 (Environment)

- Requires that parties agree to effectively enforce respective domestic labor and environmental laws.
- Includes cooperative mechanisms for labor and environmental issues.

Chapter 19 (Transparency)

- Requires that each party make publicly available all laws, regulations, and procedures regarding any and all matters covered by the agreement.
- Provides for anticorruption provisions that require parties to establish criminal prosecution and penalty procedures for bribery and corruption.

Chapter 21 (Dispute Settlement)

- Establishes standards of transparency, requires the use of special labor or environmental expertise for disputes in these areas, and emphasizes the use of consultations and trade-enhancing remedies to promote compliance.
- Includes enforcement mechanism that provides for the use of monetary assessments and trade retaliatory measures.

Source: Compiled from the text of the *U.S.-Peru TPA*, available at *http://www.ustr.gov.*